

ALPENA HOUSING COMMISSION
ALPENA, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Alpena Housing Commission	County
Fiscal Year End December 31, 2005	Opinion Date May 5, 2006	Date Audit Report Submitted to State August 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
2

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Internal Control and Compliance Reports		
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930		
Street Address 1107 E. Eighth Street		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature <i>Barry E. Gaudette (PC)</i>		Printed Name Barry E. Gaudette, CPA		License Number 11050

ALPENA HOUSING COMMISSION
TABLE OF CONTENTS
December 31, 2005

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)</u>	3-6
<u>FINANCIAL STATEMENTS</u>	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	7-8
Statement of Activities	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-21
 <u>SUPPLEMENTAL INFORMATION</u>	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets	22-23
Combining Statement of Activities	24
Combining Statement of Cash Flows	25-26
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	27
Financial Data Schedule	28-31
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	32-35
Schedule of Findings and Questioned Costs	36-37
Summary Schedule of Prior Audit Findings	38
Adjusting Journal Entries	39

INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Alpena Housing Commission
Alpena, Michigan

I have audited the accompanying financial statements of the business-type activities of the Alpena Housing Commission, Michigan, a component unit of the City of Alpena, as of and for the year ended December 31, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Alpena Housing Commission, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of December 31, 2005.

Alpena Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated May 5, 2006, on my consideration of Alpena Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Alpena Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Alpena Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Bary E. Lundberg, CPA PC

May 5, 2006

ALPENA HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
December 31, 2005
=====

Alpena Housing Commission, created in 1951, by the City of Alpena, provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Alpena Housing Commission consists of two programs. The first is owned housing, consisting of 195 units of public housing and the second is the capital funding program. Alpena Housing Commission had total revenues of \$1,170,577 that includes \$411,004 in rental payments and \$717,841 in federal assistance. Total operating expenses were \$1,015,563, that includes \$214,030 in administrative expenses, \$137,221 in utilities, \$238,342 in ordinary maintenance expenses, and \$350,104 in depreciation expense. Total revenues increased by \$246,296 from the prior year and operating expenses decreased by \$22,947 from the prior year for a net increase of \$269,243, due in part to the increase in federal grants.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$4,029,913. The Housing Commission's total net assets increased by \$92,816 from the prior year. The increase is attributable in part to keeping the operating expenses less than the prior year.

Total assets of the Housing Commission were \$4,126,412 including \$857,147 of current assets and \$3,269,265 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$96,499. Assets increased, in part, by \$92,816 from the prior year for the same reason mentioned in the previous paragraph.

The financial condition of the Housing Commission continues to improve.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.

- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital c contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

The financial condition of the Alpena Housing Commission did not change materially from the prior year. There was no loan activity in 2005. In the year ending 12/31/05 the Alpena Housing Commission spent approximately \$386,747 on capital improvements. They included replacing the carpets in common areas of Riverview apartments at a cost of \$30,007. Parking lot improvements costing approximately \$20,000 were completed at Riverview. At the Fowler apartments the common area carpets were changed at a cost of \$20,881. Also, at Fowler the kitchens were remodeled at a cost of \$196,311.

There is a pending lawsuit against the Alpena Housing Commission from a current resident. There was an alleged injury from a slip and fall accident at the Riverview apartments. The Housing Commission doesn't anticipate any significant outcome from the lawsuit if it is successful. Any financial settlements that may occur will be covered by the Housing Commission's liability insurance.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

James J. Stosik, Executive Director
2340 South 4th Street
Alpena, Michigan 49707-3027

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended December 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 857,147	\$ 730,730	\$ 126,417
Property and equipment	<u>3,269,265</u>	<u>3,302,866</u>	<u>(33,601)</u>
Total assets	<u>\$4,126,412</u>	<u>\$4,033,596</u>	<u>\$ 92,816</u>
Current liabilities	<u>\$ 96,499</u>	<u>\$ 158,697</u>	<u>\$ (62,198)</u>
Total liabilities	<u>96,499</u>	<u>158,697</u>	<u>(62,198)</u>
Net assets:			
Invested in capital assets	3,269,265	3,302,866	(33,601)
Unrestricted net assets	<u>760,648</u>	<u>572,033</u>	<u>188,615</u>
Total net assets	<u>4,029,913</u>	<u>3,874,899</u>	<u>155,014</u>
Total liabilities and net assets	<u>\$4,126,412</u>	<u>\$4,033,596</u>	<u>\$ 92,816</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of activities of the Housing Commission for the years ended December 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 411,004	\$ 417,389	\$ (6,385)
Nondwelling rent	<u>16,224</u>	<u>9,352</u>	<u>6,872</u>
Total operating revenues	<u>427,228</u>	<u>426,741</u>	<u>487</u>
Operating expenses:			
Administration	214,030	203,115	10,915
Tenant services	5,646	10,496	(4,850)
Utilities	137,221	133,914	3,307
Ordinary maintenance and operation	238,342	263,597	(25,255)
General expenses	60,664	61,848	(1,184)
Extraordinary maintenance	9,556	7,061	2,495
Casualty losses		1,485	(1,485)
Depreciation	<u>350,104</u>	<u>356,994</u>	<u>(6,890)</u>
Total operating expenses	<u>1,015,563</u>	<u>1,038,510</u>	<u>(22,947)</u>
Operating income(loss)	<u>(588,335)</u>	<u>(611,769)</u>	<u>23,434</u>
Non-operating revenue:			
Interest income	17,682	7,607	10,075
Other income	7,826	4,619	3,207
Operating grants	424,193	315,982	108,211
Capital grants	<u>293,648</u>	<u>169,332</u>	<u>124,316</u>
Total nonoperating revenue	<u>743,349</u>	<u>497,540</u>	<u>245,809</u>
Change in Net Assets	<u>\$ 155,014</u>	<u>\$ (114,229)</u>	<u>\$ 269,243</u>

FINANCIAL STATEMENTS

ALPENA HOUSING COMMISSION

STATEMENT OF NET ASSETS

December 31, 2005

=====

ASSETS

Current Assets:

Cash	\$ 740,619
Accounts receivable-dwelling rents	3,016
Allowance for doubtful accounts	(348)
Accrued interest receivable	426
Investments-unrestricted	100,000
Prepaid expenses	4,167
Inventories	<u>9,267</u>

Total Current Assets	<u>857,147</u>
----------------------	----------------

Property and Equipment:

Land	196,414
Buildings	7,174,750
Equipment	405,285
Building improvements	947,232
Construction in progress	<u>364,494</u>

	9,088,175
Less: accumulated depreciation	<u>(5,818,910)</u>

Net Property and Equipment	<u>3,269,265</u>
----------------------------	------------------

Total Assets	<u>\$ 4,126,412</u>
--------------	---------------------

See notes to financial statements

ALPENA HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 47,056
Tenant security deposit liability	24,010
Accrued expenses	19,485
Deferred revenues	<u>5,948</u>

Total Current Liabilities	<u>96,499</u>
---------------------------	---------------

Net Assets:

Invested in capital assets	3,269,265
Unrestricted net assets	<u>760,648</u>

Total Net Assets	<u>4,029,913</u>
------------------	------------------

Total Liabilities and Net Assets	<u>\$ 4,126,412</u>
----------------------------------	---------------------

See notes to financial statements

ALPENA HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended December 31, 2005
=====

OPERATING REVENUES:

Dwelling rent	\$ 411,004
Nondwelling rent	<u>16,224</u>

Total operating revenues	<u>427,228</u>
--------------------------	----------------

OPERATING EXPENSES:

Administration	214,030
Tenant services	5,646
Utilities	137,221
Ordinary maintenance and operation	238,342
General expenses	60,664
Extraordinary maintenance	9,556
Depreciation	<u>350,104</u>

Total operating expenses	<u>1,015,563</u>
--------------------------	------------------

Operating income(loss)	<u>(588,335)</u>
------------------------	-------------------

NONOPERATING REVENUES:

Investment interest income	17,682
Other income	7,826
Operating grants	424,193
Capital grants	<u>293,648</u>

Total nonoperating revenues	<u>743,349</u>
-----------------------------	----------------

Change in net assets	155,014
----------------------	---------

Prior period adjustment	17
-------------------------	----

Net assets, beginning	<u>3,874,882</u>
-----------------------	------------------

Net assets, ending	<u><u>\$ 4,029,913</u></u>
--------------------	----------------------------

See notes to financial statements

ALPENA HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2005
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 427,027
Cash payments to other suppliers of goods and services	(310,620)
Cash payments to employees for services	(361,205)
Cash payments for in lieu of taxes	<u>(27,262)</u>
Net cash (used) by operating activities	<u>(272,060)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Adjustments	17
Tenant security deposits	484
Operating grants	391,039
Other revenue	<u>7,826</u>
Net cash provided by noncapital financing activities	<u>399,366</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Capital outlays	293,648
Payments for capital acquisitions	<u>(316,503)</u>
Net cash (used) by capital and related financing activities	<u>(22,855)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>17,682</u>
Net cash provided by investing activities	<u>17,682</u>

Net increase(decrease) in cash	122,133
Cash, beginning	<u>618,486</u>
Cash, ending	<u>\$ 740,619</u>

ALPENA HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2005
=====

RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ 740,619
Cash and cash equivalents per balance sheet	<u>\$ 740,619</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(588,335)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	350,104
Bad debt allowance change	(290)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(1,025)
Prepaid expenses	(1,363)
Inventories	(1,606)
Increase (decrease) in liabilities:	
Accounts payable	(15,194)
Accrued wages/payroll taxes	(10,592)
Accrued compensated absences	(4,198)
Accrued payments in lieu of taxes	(385)
Deferred revenues	<u>824</u>
Net cash (used) by operating activities	<u>\$(272,060)</u>

See notes to financial statements

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Alpena Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Alpena Housing Commission is a component unit of the City of Alpena, a Michigan Home Rule City. The Housing Commission is a Public Housing Agency created by the City of Alpena on February 26, 1951, consisting of a five member board appointed by the City manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Alpena Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract, C-3032, the Housing Commission constructed, maintains and operates 195 units of subsidized housing in the City of Alpena, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,

equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Alpena Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$100 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	5 - 40 years
Buildings	7 - 40 years
Building improvements	5 - 40 years
Dwelling equipment-nonexpendable	7 years
Furniture, equipment-administration	5 - 10 years
Nondwelling structures	3 - 10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all used vacation leave.
- * Sick leave, an employee may accumulate a maximum of 120 days. An employee who has accumulated 120 days is eligible to receive 50% of that time upon death or retirement; payment will be made at the employee's most current rate of pay.
- * Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at December 31, 2005, was \$19,485, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$740,619 and the bank balance was \$742,306 of which \$318,644 was covered by federal depository insurance and a collateral agreement. The Housing Commission has \$50 in petty cash and \$240 in a change fund.

Investments

The Housing Commission had the following investment at First Federal bank as of December 31, 2005:

Certificate of deposit	<u>\$ 100,000</u>
------------------------	-------------------

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | |
|-------------------------------------|------------|
| 1. U.S. Treasury Notes | - 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - 75% and |
| 3. Mortgage Backed Securities | - 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 290
Carrying amount of deposits	740,329
Investments	<u>100,000</u>
Total	<u>\$ 840,619</u>
Cash and cash equivalents:	
Enterprise activities	\$ 842,306
Enterprise activities - checks written in excess of deposits	<u>(1,687)</u>
Total	<u>\$ 840,619</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At December 31, 2005, the receivables were \$3,016 with \$348 estimated as uncollectible. Bad debt expense was \$2,445.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund payables to the Low Rent Program from the Capital Fund Program as of December 31, 2005

There was an individual fund operating transfer during the fiscal year of \$93,100 from the capital fund program to the low rent program.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/05</u>
Low Rent Program				
Land	\$ 196,414	\$	\$	\$ 196,414
Buildings	6,674,482	263,748		6,938,230
Furniture, equip. & machinery - dwellings	108,447			108,447
Furniture, equip. & machinery - administration	275,800	1,638		277,438
Building improvements	<u>947,232</u>			<u>947,232</u>
	8,202,375	<u>\$ 265,386</u>	<u>\$</u>	8,467,761
Less accumulated depreciation	(<u>5,409,833</u>)	<u>\$ (374,018)</u>	<u>\$</u>	(<u>5,783,851</u>)
Total	<u>\$ 2,792,542</u>			<u>\$ 2,683,910</u>
Capital Fund Program				
Buildings	\$ 413,234	\$	\$ 176,714	\$ 236,520
Furniture, equip. & machinery - administration	19,400			19,400
Construction in progress	<u>136,680</u>	<u>227,814</u>		<u>364,494</u>
	569,314	<u>\$ 227,814</u>	<u>\$ 176,714</u>	620,414
Less accumulated depreciation	(<u>58,990</u>)	<u>\$ (35,059)</u>	<u>\$ 58,990</u>	(<u>35,059</u>)
Total	<u>\$ 510,324</u>			<u>\$ 585,355</u>
Combined Totals				<u>\$ 3,269,265</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning (contributed capital)	\$ 3,302,866
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	(<u>33,601</u>)
Balance, ending	<u>\$ 3,269,265</u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission participates in the City of Alpena Employees Retirement System. The pension plan is a defined benefit plan. The employer contributions are actuarially determined and for the year 2005 no employer contributions were required. The actual unfunded actuarial liability for the plan was \$2,906,920 (UAAL) as of December 31, 2005. The actuarial accrued liabilities (AAL) was \$23,723,612 as of December 31, 2004. The market value of assets as of December 31, 2005 was \$26,685,987. The reported revenues were \$1,278,793 and expenditures \$1,656,403 for the year ended December 31, 2005.

Further details are available from Alpena Housing Commission, 2340 South 4th Street, Alpena, MI 49707-3027.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended December 31, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

**E. Prior Period Adjustments, Equity Transfers and
Correction of Errors**

Low Rent Program

To void stale checks	\$ 17
To correct equity	(212)
Transfer completed 2001 Capital Fund to Low Rent	<u>183,770</u>
	<u>\$ 183,575</u>

Capital Fund Program

To correct equity	\$ 212
Transfer completed 2001 Capital Fund to Low Rent	<u>(183,770)</u>
	<u>\$ (183,558)</u>

F. Post-retirement Benefits Other Than Pensions

The Alpena Housing Commission will pay 75% of a retired employee's individual cost of health insurance coverage subject to the following: For salaried administrative employees with at least 15 years of City service, the percentage is 100%, also subject to the following: The Alpena Housing Commission will pay the first 5% of any premium increase in each year after the employee retires. Any increase above 5% in the year, will be paid by the retiree. The monthly insurance payment for a retired employee's individual cost of health insurance coverage will be paid whether the retiree has coverage through the City's medical insurance plan or not, subject to the same limitations on the annual increases. Employees who retire will have the same health care insurance as active employees unless retiree chooses lower coverage available through an existing retiree health insurance suffix; except if the City switches to a high deductible health insurance plan with the Alpena Housing Commission paying or reimbursing employees for the high deductible through a medical reimbursement plan, such as health savings account, health reimbursement account, or similar account, then the retiree shall have the option to remain with his/her current coverage or switch to the high deductible plan.

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended December 31, 2005, was as follows:

	Low Rent Program	Capital Fund Program
Condensed Statement of Net Assets		
Current assets	\$ 857,147	\$
Property and equipment	2,683,910	585,355
Total assets	<u>\$ 3,541,057</u>	<u>\$ 585,355</u>
Current liabilities	\$ 96,499	\$
Total liabilities	<u>96,499</u>	
Net assets:		
Invested in capital assets	2,683,910	585,355
Unrestricted net assets	760,648	
Total net assets	<u>3,444,558</u>	<u>585,355</u>
Total liabilities and net assets	<u>\$ 3,541,057</u>	<u>\$ 585,355</u>
Condensed Statement of Activities		
Dwelling rent	\$ 411,004	\$
Nondwelling rent	16,224	
Depreciation	(315,045)	(35,059)
Other operating expenses	(665,459)	
Operating(loss)	<u>(553,276)</u>	<u>(35,059)</u>
Nonoperating revenues:		
Investment interest income	17,682	
Other income	7,826	
Operating transfers in (out)	93,100	(93,100)
Operating grants	331,093	93,100
Capital grants		<u>293,648</u>
Change in net assets	<u>(103,575)</u>	<u>258,589</u>
Prior period adjustments, equity transfers and correction of errors	183,575	(183,558)
Beginning net assets	<u>3,364,558</u>	<u>510,324</u>
Ending net assets	<u>\$ 3,444,558</u>	<u>\$ 585,355</u>
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	\$ (272,060)	\$
Noncapital financing activities	399,154	212
Capital and related financing activities	(22,643)	(212)
Investing activities	<u>17,682</u>	
Net increase(decrease)	<u>122,133</u>	
Beginning cash and cash equivalents	<u>618,486</u>	
Ending cash and cash equivalents	<u>\$ 740,619</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 December 31, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 740,619	\$
Accounts receivable-dwelling rents	3,016	
Allowance for doubtful accounts- dwelling rents	(348)	
Accrued interest receivable	426	
Investments-unrestricted	100,000	
Prepaid expenses	4,167	
Inventories	<u>9,267</u>	
Total current assets	<u>857,147</u>	
Property and equipment:		
Land	196,414	
Buildings	6,938,230	236,520
Equipment	385,885	19,400
Building improvements	947,232	
Construction in progress		<u>364,494</u>
	<u>8,467,761</u>	<u>620,414</u>
Less accumulated depreciation	<u>(5,783,851)</u>	<u>(35,059)</u>
Net property and equipment	<u>2,683,910</u>	<u>585,355</u>
Total Assets	<u>\$ 3,541,057</u>	<u>\$ 585,355</u>

Totals

\$ 740,619
3,016

(348)
426
100,000
4,167
9,267

857,147

196,414
7,174,750
405,285
947,232
364,494
9,088,175
(5,818,910)

3,269,265

\$ 4,126,412

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 December 31, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 47,056	\$
Tenant security deposit liability	24,010	
Accrued expenses	19,485	
Deferred revenues	<u>5,948</u>	
Total current liabilities	<u>96,499</u>	
Net assets:		
Invested in capital assets	2,683,910	585,355
Unrestricted net assets	<u>760,648</u>	
Total net assets	<u>3,444,558</u>	<u>585,355</u>
Total Liabilities and Net Assets	<u>\$3,541,057</u>	<u>\$ 585,355</u>

Totals

\$ 47,056
24,010
19,485
5,948

96,499

3,269,265
760,648

4,029,913

\$ 4,126,412

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended December 31, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 411,004	\$
Nondwelling rent	<u>16,224</u>	<u></u>
Total operating revenues	<u>427,228</u>	<u></u>
OPERATING EXPENSES:		
Administration	214,030	
Tenant services	5,646	
Utilities	137,221	
Ordinary maintenance and operation	238,342	
General expenses	60,664	
Extraordinary maintenance	9,556	
Depreciation	<u>315,045</u>	<u>35,059</u>
Total operating expenses	<u>980,504</u>	<u>35,059</u>
Operating income(loss)	<u>(553,276)</u>	<u>(35,059)</u>
NONOPERATING REVENUES (EXPENSES) :		
Investment interest income	17,682	
Other income	7,826	
Operating transfers in (out)	93,100	(93,100)
Operating grants	331,093	93,100
Capital grants	<u></u>	<u>293,648</u>
Total nonoperating revenues (expenses)	<u>449,701</u>	<u>293,648</u>
Change in net assets	(103,575)	258,589
Prior period adjustments, equity transfers and correction of errors	183,575	(183,558)
Net assets, beginning	<u>3,364,558</u>	<u>510,324</u>
Net assets, ending	<u><u>\$3,444,558</u></u>	<u><u>\$585,355</u></u>

Totals

\$ 411,004
16,224

427,228

214,030

5,646

137,221

238,342

60,664

9,556

350,104

1,015,563

(588,335)

17,682

7,826

424,193

293,648

743,349

155,014

17

3,874,882

\$ 4,029,913

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2005
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 427,027	\$
Cash payments to other suppliers of goods and services	(310,620)	
Cash payments to employees for services	(361,205)	
Cash payments for in lieu of taxes	<u>(27,262)</u>	
Net cash (used) by operating activities	<u>(272,060)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Adjustment	(195)	212
Due from/to other programs	(33,154)	33,154
Tenant security deposits	484	
Operating transfers in (out)	93,100	(93,100)
Operating grants	331,093	59,946
Other revenue	<u>7,826</u>	
Net cash provided by noncapital financing activities	<u>399,154</u>	<u>212</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		293,648
Payments for capital acquisitions	<u>(22,643)</u>	<u>(293,860)</u>
Net cash (used) by capital and related financing activities	<u>(22,643)</u>	<u>(212)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>17,682</u>	
Net cash (used) by investing activities	<u>17,682</u>	
Net increase(decrease) in cash	122,133	
Cash, beginning	<u>618,486</u>	
Cash, ending	<u>\$ 740,619</u>	<u>\$</u>

Totals

\$ 427,027

(310,620)

(361,205)

(27,262)

(272,060)

17

484

391,039

7,826

399,366

293,648

(316,503)

(22,855)

17,682

17,682

122,133

618,486

\$ 740,619

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2005
=====

	Low Rent	Capital
	Program	Fund
	Program	Program
	<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF
CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ 740,619	\$
Cash and cash equivalents per balance sheet	<u>\$ 740,619</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (553,276)	\$ (35,059)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	315,045	35,059
Bad debt allowance change	(290)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(1,025)	
Prepaid expenses	(1,363)	
Inventories	(1,606)	
Increase (decrease) in liabilities:		
Accounts payable	(15,194)	
Accrued wages/payroll taxes	(10,592)	
Accrued compensated absences	(4,198)	
Accrued payments in lieu of taxes	(385)	
Deferred revenues	<u>824</u>	
Net cash (used) by operating activities	<u>\$ (272,060)</u>	<u>\$</u>

Totals

\$ 740,619

\$ 740,619

\$ (588,335)

(350,104
290)

(1,025)
(1,363)
(1,606)

(15,194)
(10,592)
(4,198)

(385)
824

\$ (272,060)

ALPENA HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended December 31, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 331,093
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Capital Fund Program	14.872	<u>386,748</u>
	Total		<u>\$ 717,841</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended December 31, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 740,619	\$
100	Total cash	<u>740,619</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	3,016	
126.1	Allowance for doubtful accounts- dwelling rent	(348)	
129	Accrued interest receivable	<u>426</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>3,094</u>	
	Current Investments:		
131	Investments-unrestricted	<u>100,000</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	4,167	
143	Inventories	<u>9,267</u>	
	Total other current assets	<u>13,434</u>	
150	Total current assets	<u>857,147</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	196,414	
162	Buildings	6,938,230	236,520
163	Furn, equip & mach-dwellings	108,447	19,400
164	Furn, equip & mach-admin.	277,438	
165	Building improvements	947,232	
166	Accumulated depreciation	(5,783,851)	(35,059)
167	Construction in progress		<u>364,494</u>
160	Total fixed assets, net of accumulated depreciation	<u>2,683,910</u>	<u>585,355</u>
180	Total noncurrent assets	<u>2,683,910</u>	<u>585,355</u>
190	Total Assets	<u>\$ 3,541,057</u>	<u>\$ 585,355</u>

Totals

\$ 740,619

740,619

3,016

(348)
426

3,094

100,000

4,167

9,267

13,434

857,147

196,414

7,174,750

127,847

277,438

947,232

(5,818,910)

364,494

3,269,265

3,269,265

\$ 4,126,412

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 20,179	\$
322	Accrued compensated absences- current portion	19,485	
333	Accounts payable-other government	26,877	
341	Tenant security deposits	24,010	
342	Deferred revenues	<u>5,948</u>	
310	Total current liabilities	<u>96,499</u>	
300	Total liabilities	<u>96,499</u>	
	Equity:		
508.1	Invested in capital assets	<u>2,683,910</u>	<u>585,355</u>
508	Total equity	2,683,910	585,355
	Net Assets:		
512.1	Unrestricted net assets	<u>760,648</u>	
513	Total equity/net assets	<u>3,444,558</u>	<u>585,355</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,541,057</u>	<u>\$ 585,355</u>

Totals

\$ 20,179

19,485

26,877

24,010

5,948

96,499

96,499

3,269,265

3,269,265

760,648

4,029,913

\$ 4,126,412

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 411,004	\$
704	Tenant revenue-other	<u>16,224</u>	<u></u>
705	Total tenant revenue	427,228	
706	HUD PHA grants	331,093	93,100
706.1	Capital grants		293,648
711	Investment income-unrestricted	17,682	
715	Other revenue	<u>7,826</u>	<u></u>
700	Total revenue	<u>783,829</u>	<u>386,748</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	125,469	
912	Auditing fees	3,500	
914	Compensated absences	7,302	
915	Employee benefit contributions-adm.	39,410	
916	Other operating-administrative	38,349	
	Tenant Services:		
924	Tenant services-other	5,646	
	Utilities:		
931	Water	31,560	
932	Electricity	49,852	
933	Gas	55,809	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	118,089	
942	Ordinary maint & oper-mat'ls & other	44,962	
943	Ordinary maint & oper-contract costs	19,146	
945	Employee benefit contributions-ordinary maintenance	56,145	
	General expenses:		
961	Insurance premiums	31,342	
963	Payments in lieu of taxes	26,877	
964	Bad debt-tenant rents	<u>2,445</u>	<u></u>
969	Total operating expenses	<u>655,903</u>	<u></u>
970	Excess operating revenue over operating expenses	<u>127,926</u>	<u>386,748</u>

<u>Totals</u>	
\$	411,004
	<u>16,224</u>
	427,228
	424,193
	293,648
	17,682
	<u>7,826</u>
	<u>1,170,577</u>

125,469
3,500
7,302
39,410
38,349

5,646

31,560
49,852
55,809

118,089
44,962
19,146

56,145

31,342
26,877
<u>2,445</u>

655,903

514,674

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	9,556	
974	Depreciation expense	<u>315,045</u>	<u>35,059</u>
	Total other expenses	<u>324,601</u>	<u>35,059</u>
900	Total expenses	<u>980,504</u>	<u>35,059</u>
	Other Financing Sources(Uses):		
1001	Operating transfers in	93,100	
1002	Operating transfers out	<u> </u>	<u>(93,100)</u>
	Total other financing sources(uses)	<u>93,100</u>	<u>(93,100)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(103,575)	258,589
1104	Prior period adjustments, equity transfers and correction of errors	183,575	(183,558)
1103	Beginning Net Assets	<u>3,364,558</u>	<u>510,324</u>
	Ending Net Assets	<u>\$ 3,444,558</u>	<u>\$585,355</u>

Totals

9,556

350,104

359,660

1,015,563

93,100

(93,100)

155,014

17

3,874,882

\$ 4,029,913

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Alpena Housing Commission
Alpena, Michigan

I have audited the financial statements of the business-type activities of the Alpena Housing Commission, Michigan, (Housing Commission) as of and for the year ended December 31, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated May 5, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Alpena Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated May 5, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Sandels, CPA, PC

May 5, 2006

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Alpena Housing Commission
Alpena, Michigan

Compliance

I have audited the compliance of the Alpena Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Alpena Housing Commission
Page Two

Compliance - Continued

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Housing Commission, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated May 5, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Sandlett, CPA

May 5, 2006

ALPENA HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2005
 =====

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Housing Commission.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Housing Commission were discovered during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Commission expresses a unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) or OMB Circular A-133 are reported in this Schedule.
7. Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850	Low Rent Public Housing	\$ 331,093	Yes	O	N/A	N/A
14.872	Capital Fund Program	<u>386,748</u>	Yes	O	N/A	N/A
	Total	<u>\$ 717,841</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was determined to be a low-risk auditee.

ALPENA HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
December 31, 2005

=====

B. Financial Statement Findings	None
C. Federal Award Findings and Questioned Costs	None

ALPENA HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2005

=====

NONE

ALPENA HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
December 31, 2005
=====

<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries necessary.

ALPENA HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

DECEMBER 31, 2005

ALPENA HOUSING COMMISSION
CONTENTS
DECEMBER 31, 2005

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4
Adjusting Journal Entries	5

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Alpena Housing Commission

I have audited the financial statements of the Alpena Housing Commission ("Housing Commission") as of and for the year ended December 31, 2005, and have issued my report, thereon, dated May 5, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Handlett, CPA, PC

May 5, 2006

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Alpena Housing Commission

I have audited the financial statements of the Alpena Housing Commission ("Housing Commission") as of and for the year ended December 31, 2005, and have issued my report, thereon, dated May 5, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

May 5, 2006

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
December 31, 2005

=====

Check signature and approval

Checks require one signature.

Even though the Housing Commission has a policy of only signature on the checks, internal controls are in place for proper approval of bills. A staff member, that is not a check signor, prepares the checks using check writing software. The Executive Director then reviews the invoices to be paid and signs the checks. A third staff member then reviews the invoices before mailing them out. The Board of Commissioners also reviews monthly a check register that includes the check numbers and will request invoices when they have a question.

ALPENA HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
December 31, 2005

=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
------------------	---------------------	--------------	---------------

There were no adjusting journal entries necessary.